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PEACE RIVER MINING & SMELTING LTD.
AMHERSTBURG, ONTARIO - CANADA
(519) 736-2125 TELEX 024-77737

364-6136

DOUGLAS H. W. ALLAN
MANAGER OF MARKETING

copy

PEACE RIVER
MINING & SMELTING LTD.
ANNUAL REPORT
1968



PEACE RIVER MINING & SMELTING LTD.

Including Wholly-owned Subsidiary Companies

Matthew Brady Holdings Limited, Windsor, Ontario

Great Lakes Forgings Limited (Forging Division), Windsor, Ontario

Great Lakes Forgings Limited (Metal Powder Division), Amherstburg, Ontario

G.L. Processing Limited, Windsor, Ontario

St. Clair Metal Processing Limited, Windsor, Ontario

DIRECTORS

F. J. Bartholomew, P.Eng.

J. C. Dale, P.Eng.

W. Clarke Gibson

A. J. Hamilton, F.C.A.

G. R. Heffernan, P.Eng.

R. C. Heim

P. L. P. Macdonnell, Q.C.

H. R. Milner, Q.C., LL.D.

Gordon P. Osler

F. G. Winspear, F.C.A., LL.D.

OFFICERS

F. G. Winspear, *Chairman of the Board*

G. R. Heffernan, *President*

F. J. Bartholomew, *Vice-President*

J. C. Dale, *Vice-President*

A. J. Hamilton, *Treasurer*

P. L. P. Macdonnell, *Secretary*

REGISTERED OFFICE

10040 - 104 Street, Edmonton 14, Alberta

**MAIN PLANT AND
ADMINISTRATIVE
OFFICE**

Amherstburg, Ontario

AUDITORS

McDonald, Currie & Co.
Edmonton, Alberta

**TRANSFER AGENT
and
REGISTRAR**

CANADA PERMANENT TRUST COMPANY
Edmonton, Toronto, Montreal, Vancouver and Halifax

REPORT OF THE BOARD OF DIRECTORS

TO THE SHAREHOLDERS OF PEACE RIVER MINING & SMELTING LTD.

- On behalf of the Board of Directors of Peace River Mining & Smelting Ltd., I am pleased to submit the sixth annual report of your Company for the period from September 1, 1967 to August 31, 1968.

PROGRESS

August 31, 1968, marked the end of what has been the Company's most eventful year to date. During this year the Company's research and engineering group brought the iron powder process to the point where it was possible to design and finance a 50,000 ton per year commercial plant. Location studies were completed and a 143 acre site purchased at Amherstburg, near Windsor, Ontario. Construction is well underway on this site with the office and plant services buildings complete, the warehouse building in an advanced state of construction, and foundation work completed on the main structures. With approximately 40% of the project now committed on firm contract, we are pleased to state that it is on budget and on schedule. Barring unforeseen difficulties such as strikes or force majeure, it is expected that the plant will be completed within budget and on time for the startup date of January 2, 1970.

In order to facilitate its entree to the automotive business, the Company purchased Matthew Brady Holdings Limited with its wholly owned subsidiaries Great Lakes forgings Limited and G.L. Processing Limited. These companies have been brought from a loss to a profit position since their acquisition and are expected to make a substantial return on the Company's investment in them during the fiscal year 1969.

FINANCES

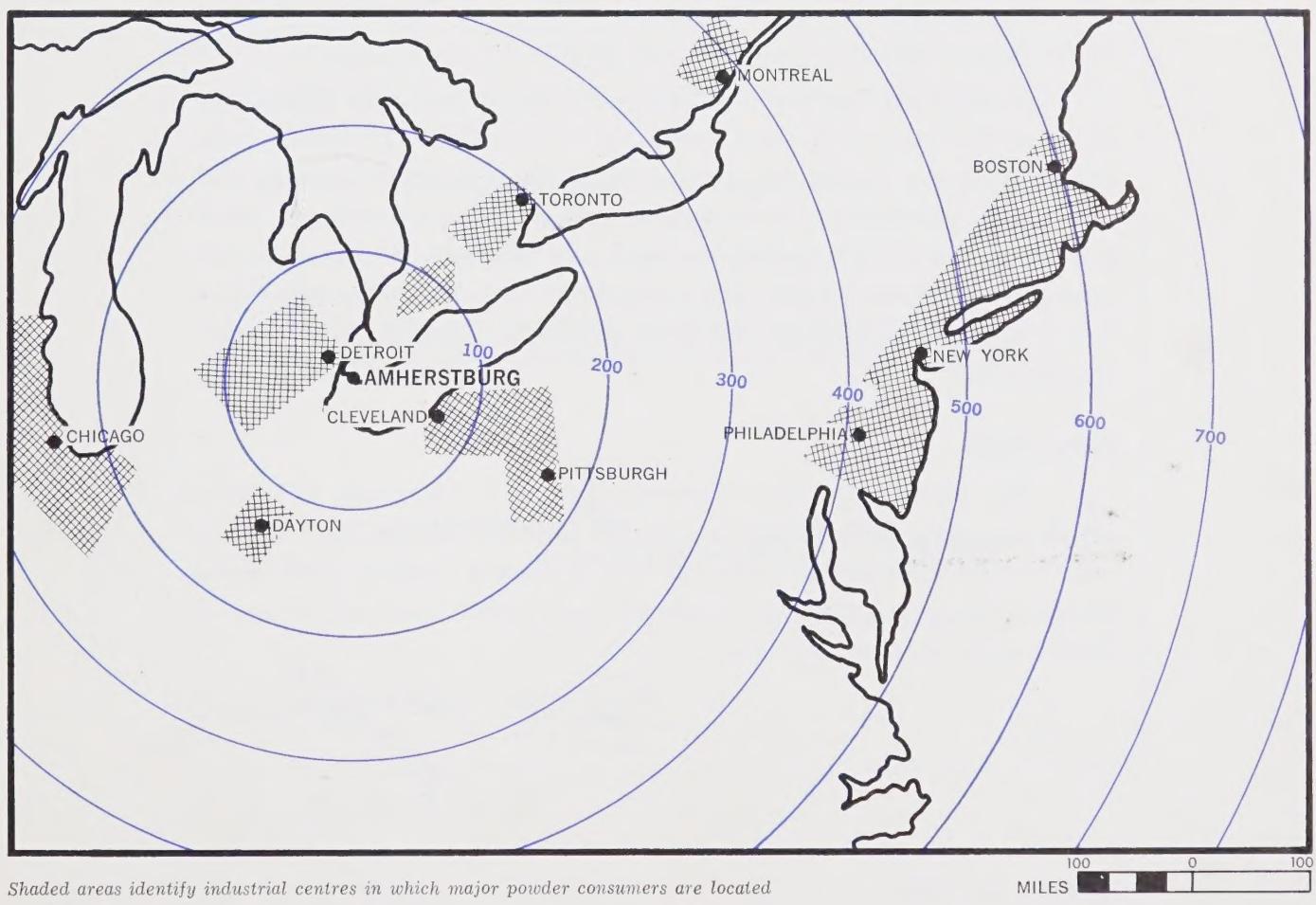
The financing completed on February 15, 1968, made available a total of \$16,672,000 in new funds to the Company. Of this \$11,199,000 has been provided for plant construction; \$1,806,000 for interest during construction, research, pre-production expense, and market development; \$1,300,000 for working capital; \$195,000 to cover a working capital deficit as of October 31, 1967; \$1,000,000 for the purchase of Matthew Brady Holdings and its subsidiaries; \$543,000 for financing costs, and \$629,000 as a reserve fund for contingencies or expenditures over and above those provided for in the construction budget. With approximately 40 percent of the project now completed or firmly committed, it appears that the funds available are adequate for the completion of the project.

PLANT LOCATION

The plant site on the outskirts of Amherstburg was chosen for its proximity to all the required services, markets and raw materials, as well as for its excellent foundation conditions.

The distribution service facilities include two railroad systems whose tracks cross at the corner of the plant property, well maintained secondary roads with ready access by both bridge and tunnel to major United States highway systems and to "Ontario's Main Street" — Highway 401. Docking facilities at Amherstburg and Windsor are available for the loading of ships using the St. Lawrence Seaway system.

As indicated by the diagram below, Amherstburg is almost at the geographic centre of the North American iron powder consuming industry. A survey of some 85 potential customers indicates that the Peace River plant is, on the average, 65 miles closer to these consumers than any other powder producing facility. In addition, the major automotive industry plants, which represent the largest individual consumers of iron powder parts, are located in the Detroit area across the river from Amherstburg.



Shaded areas identify industrial centres in which major powder consumers are located

MILES

MARKETS

The markets for Peace River iron powders cover a wide spectrum of industrial activity. These markets range from the specialty alloy industry, where high purity iron powders and briquettes are used for melting stocks, through the fine chemical industry where special high purity iron powders are used as an ingredient in the production of pharmaceutical products. Between these extremes lie the welding industry where powders are used for welding rod coatings and for cutting powders; the powder metallurgy parts industry, where powders are compacted into structural and mechanical parts; and the electrical and electronic industry, where powders are used in the fabrication of parts for special magnetic applications. Market research is being conducted in each of these areas and potential consumers are being made aware of the special characteristics of chemically refined iron powders produced by the Peace River Process. The favorable reaction being received to these marketing activities indicates that the advantage of chemically refined iron powders will assist in the profitable sale of Peace River Powders.

The availability of iron powders at competitive prices has encouraged investigation by both powder producers and consumers of the feasibility of using powder rather than wrought steel as the raw material for the production of hot forged parts. The rapid evolution of these manufacturing techniques could create a large, new market for iron powder.

Since the decision was made to proceed with financing and construction of the Amherstburg plant, there have been announcements by several major companies in the United States and Canada that they are proceeding with iron powder plants using a variety of different production techniques. While this rapid expansion of capacity may result in a temporary oversupply of iron powder in 1970 the Company believes that its chemically-produced powders have a quality advantage and that it will be able to meet whatever competition develops.

PERSONNEL

The Company has been extremely fortunate in being able to attract a highly competent and enthusiastic staff. The Directors wish to thank all those who have participated during the past year in piloting, research, engineering, development, accounting, procurement, construction, production and in marketing for an excellent effort.



G. R. HEFFERNAN,

President

October 25, 1968

McDONALD, CURRIE & CO.

CHARTERED ACCOUNTANTS

INTERNATIONAL FIRM
COOPERS & LYBRAND

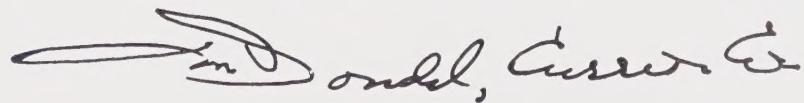
1000 CHANCERY HALL
EDMONTON 15, ALBERTA, CANADA

October 18, 1968

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Peace River Mining & Smelting Ltd. and its subsidiaries as at August 31, 1968 and the consolidated statements of earnings, deferred exploration, development, research and administrative expenses and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at August 31, 1968 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



Chartered Accountants.

PEACE RIVER MINING & SMELTING LTD. AND SUBSIDIARY COMPANIES

ASSETS

CURRENT ASSETS	\$
Cash and deposit receipts	581,799
Accounts receivable	427,798
Inventories (note 2)	142,424
Prepaid expenses	129,067
	<hr/>
	1,281,088
FUNDS ALLOCATED TO IRON POWDER PROJECT (note 3)	7,312,289
	<hr/>
FIXED ASSETS	
Mining properties under lease - at cost (note 4)	316,405
Land, buildings and equipment - at cost less accumulated depreciation of \$507,183	551,965
Construction in progress (note 3)	770,959
	<hr/>
	1,639,329
OTHER ASSETS	
Deferred exploration, development, research and administrative expenses (note 4)	3,444,803
Financing expenses	543,378
Excess of cost of shares of subsidiaries over the book value thereof at their dates of acquisition	304,592
	<hr/>
	4,292,773

SIGNED ON BEHALF OF THE BOARD

G. R. HEFFERNAN, Director

A. J. HAMILTON, Director

14,525,479

CONSOLIDATED BALANCE SHEET AT AUGUST 31, 1968

LIABILITIES

CURRENT LIABILITIES	\$
Accounts payable and accrued liabilities	501,270
7½% CONVERTIBLE DEBENTURES SERIES A - due 1983 (note 5)	6,500,000
	7,001,270

SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 6)	
Authorized—	
5,000,000 common shares without nominal or par value	
Issued and fully paid—	
2,513,743 shares	6,138,391
CONTRIBUTED SURPLUS (Note 7)	1,394,695
	7,533,086

DEFICIT

Net loss for the year	8,877
	7,524,209
	14,525,479

PEACE RIVER MINING & SMELTING LTD. AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF EARNINGS FOR THE YEAR ENDED AUGUST 31, 1968
 (Note 1)

	\$
SALES	1,466,216
COST OF SALES, SELLING AND ADMINISTRATIVE EXPENSES	<u>1,479,796</u>
	(13,580)
OTHER INCOME	<u>5,269</u>
	8,311
INCOME TAXES	<u>566</u>
NET LOSS FOR THE YEAR	<u>8,877</u>

**CONSOLIDATED STATEMENT OF DEFERRED EXPLORATION, DEVELOPMENT,
 RESEARCH AND ADMINISTRATIVE EXPENSES FOR THE YEAR ENDED AUGUST 31, 1968**

	Balance August 31 1967	Expended During The Year	Balance August 31 1968
	\$	\$	\$
EXPLORATION AND DEVELOPMENT	135,388	<u>10,014</u>	<u>145,402</u>
RESEARCH	<u>2,335,528</u>	<u>598,754</u>	<u>2,934,282</u>
MARKET DEVELOPMENT	<u>—</u>	<u>12,327</u>	<u>12,327</u>
ADMINISTRATIVE			
General corporate administration	234,397	111,118	345,515
Patents	83,779	11,212	94,991
	<u>318,176</u>	<u>122,330</u>	<u>440,506</u>
	<u>2,789,092</u>	<u>743,425</u>	<u>3,532,517</u>
OTHER REVENUE	87,714	—	87,714
BALANCE - END OF YEAR	<u>2,701,378</u>	<u>743,425</u>	<u>3,444,803</u>

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS FOR THE YEAR ENDED AUGUST 31, 1968

SOURCE OF FUNDS	\$
Net loss for the year	8,877
Add: Charge not requiring cash outlay—	
Depreciation	50,959
	<hr/>
	42,082
Issue of capital stock	4,188,310
Sale of debentures	6,500,000
Contributed surplus	477,177
	<hr/>
	11,207,569
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USE OF FUNDS	
Exploration, development, research and administrative expenses	743,425
Financing expenses	543,378
Payment of mortgage loans	221,250
Purchase of subsidiaries	628,247
Purchase of fixed assets	49,485
Construction in progress	770,959
	<hr/>
	2,956,744
	<hr/>
NET SOURCE OF FUNDS	8,250,825
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AVAILABLE AS:	
Funds allocated to Iron Powder Project	7,312,289
Increase in working capital	938,536
	<hr/>
	8,250,825
	<hr/>

PEACE RIVER MINING & SMELTING LTD. AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 1968

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of all subsidiary companies which are as follows:

Matthew Brady Holdings Limited
Great Lakes Forgings Limited
G. L. Processing Limited
St. Clair Metal Processing Limited

The subsidiaries were acquired on November 1, 1967 and only their operations since that date have been included in the consolidated financial statements.

Because of the lack of comparability of the accompanying statements with foregoing periods, comparative figures are omitted.

2. INVENTORIES

The inventories are comprised of the following:

	\$
Raw materials—at the lower of cost or replacement cost	97,947
Work in process and finished goods—at the lower of cost or net realizable value	44,477
	<hr/> <hr/> <hr/>
	142,424

3. IRON POWDER PROJECT

Great Lakes Forgings Limited, a subsidiary, is constructing an iron powder plant and it is estimated that the total cost of bringing the plant into commercial operation, including the working capital requirements and various development expenses, will amount to \$14,305,000. To date, \$770,959 has been expended on construction and \$221,752 on further research and market development. The funds allocated to the project of \$7,312,289, together with the \$6,000,000 available from the secured debenture referred to below, is considered adequate to finance the completion of the project.

A \$6,000,000 7 1/4% secured debenture which has been acquired by a government lending institution will provide funds which may be drawn as the project develops. The funds may not be drawn until \$8,500,000 from the proceeds of the recent issue of common shares and the 7 1/2% convertible debentures have been applied to the project. The project must be completed before June 30, 1970 and the company must be able to satisfy the government that the company will have sufficient funds to complete the project. If any material adverse change in risk occurs which the company is unable or unwilling to correct, the government may refuse to advance the funds. The repayment provisions consist of ten consecutive quarterly instalments of \$75,000 each commencing on December 15, 1970 and thirty consecutive quarterly instalments of \$175,000 each commencing on September 15, 1973. The debenture is secured by mortgages on all real property and fixed and floating charges on all other assets, property and undertakings of Great Lakes Forgings Limited and by a floating

charge on all assets, property and undertakings of Peace River Mining & Smelting Ltd. and the other subsidiary companies listed in note 1.

4. MINING PROPERTIES AND DEFERRED CHARGES

The amounts shown for mining properties and deferred exploration, development, research and administrative expenses represent actual costs to date and are not intended to reflect present or future values.

5. 7 1/2% CONVERTIBLE DEBENTURES

These debentures are convertible at the option of the holders into common shares at the rate of 150 shares for each \$1,000 principal amount of debentures on or before February 10, 1983.

The provisions of the Trust Indenture provide for the creation of a purchase fund for the retirement of the debentures by requiring payment of the sum of \$150,000 to the Trustee on February 15 in each of the years 1971 to 1982 inclusive.

6. CAPITAL STOCK

By special resolution the authorized capital of the company was increased from 3,000,000 common shares to 5,000,000 common shares without nominal or par value.

Of the authorized capital, 975,000 shares have been reserved for possible conversion of 7 1/2% debentures and 8,000 shares are reserved under a key employee stock option plan adopted in 1965. These options may be exercised at various dates terminating October 1, 1971 for a consideration of \$3.50 a share.

During the year 839,012 shares were issued for a cash consideration of \$4,188,310.

7. CONTRIBUTED SURPLUS

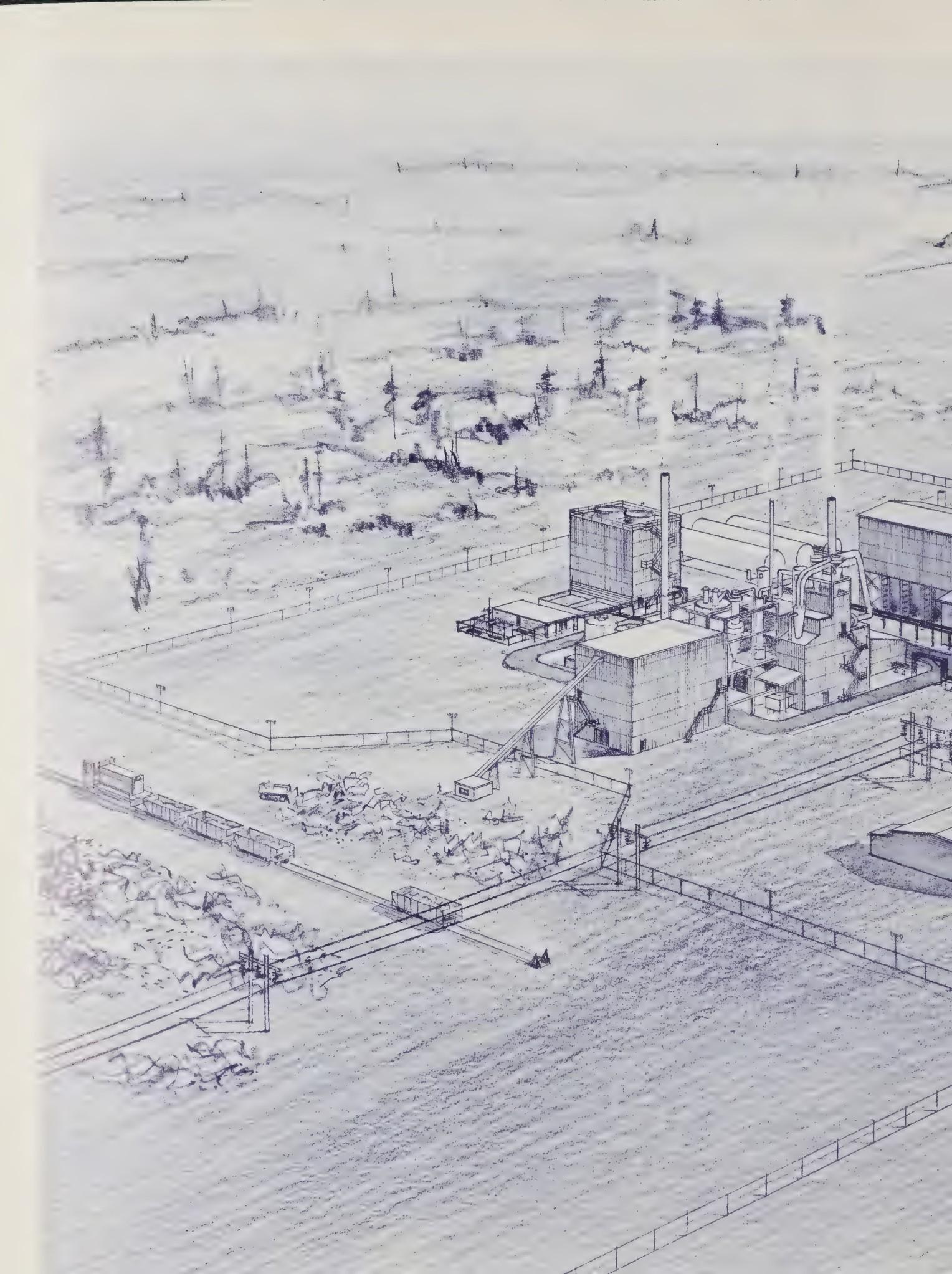
Contributed surplus represents grants from the Defence Research Board. Grants of \$261,817 were claimed in respect of the current year. Of the total authorized amount of these grants a further \$40,000 may be claimed as research expenditures are made by the company. Also included this year is a grant from the Department of Industry of \$215,360.

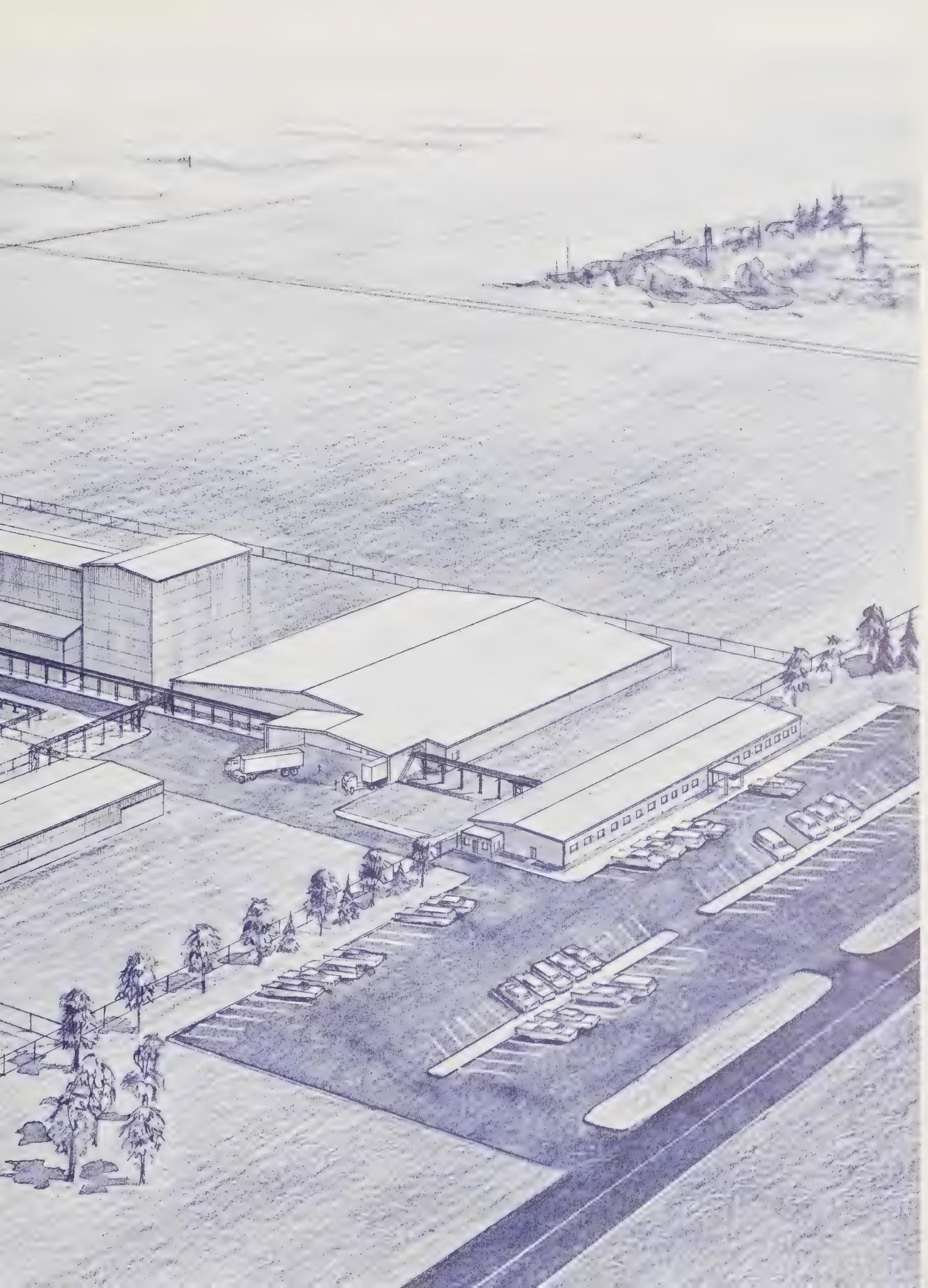
8. STATUTORY INFORMATION

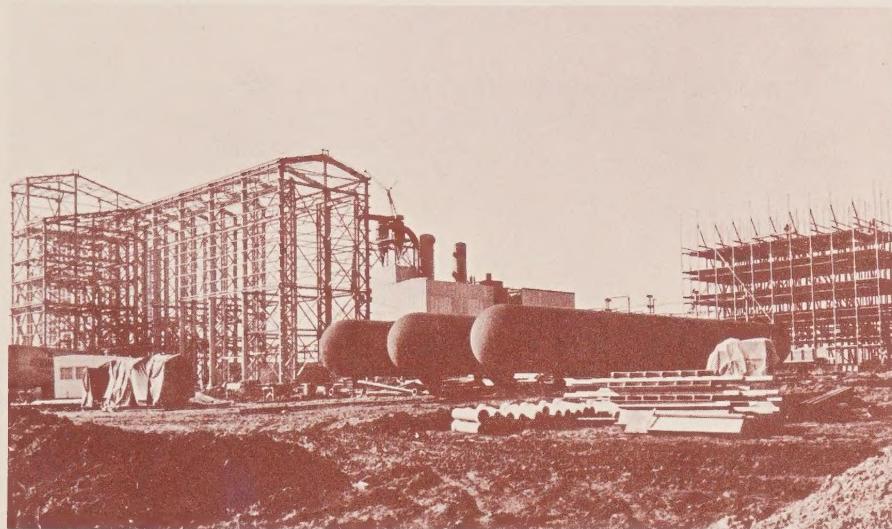
The expenditures for the year ended August 31, 1968 include the following:

	\$
Interest on long-term debt	269,586
Depreciation	51,030
Remuneration of directors and senior personnel	
Directors	10,000
Senior personnel	89,727

Artist's impression of the new plant, presently in the course of construction at Amherstburg, Ontario, which will manufacture iron powder by the Peace River Process.







SEMI-ANNUAL REPORT

PEACE RIVER

MINING & SMELTING LTD.

*To the Shareholders of
Peace River Mining & Smelting Ltd.*

Progress in the construction of your Company's iron-powder plant at Amherstburg, Ontario, continues satisfactorily, in spite of adverse weather conditions which hampered foundation work for several weeks. Engineering is now substantially completed, and deliveries, erection and installation are, generally, well in line with scheduling.

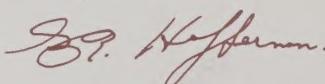
Company personnel are being transferred to the plant site in anticipation of an intensive labour training program to prepare a full complement of operators for the running-in of the plant later in 1969, for start-up January 1st, 1970.

Product development and marketing personnel are continuing their efforts towards achieving the fullest utilization of the plant's product. The market for iron powder maintained a high rate of growth in 1968, and it is expected that this rate of growth will continue. There is, however, a large quantity of new iron powder capacity scheduled to come into production during 1969-70 which will probably lead to a temporary situation of over-supply in the early 1970's. Despite this, we believe that the quality advantages of our chemically produced powders will ensure a strong marketing position for your Company's product.

With approximately seventy-two percent of the capital cost of the plant now completed or firmly committed your Board of Directors considers that the funds available are adequate for the purpose of bringing this plant into commercial production.

The performance of the operating subsidiaries, comprising the Matthew Brady Holdings Limited group of companies, acquired in November 1967, has proven highly satisfactory. Sales of \$1,280,289 (4 months, 1968 — \$400,733) have generated a cash flow of \$141,351 (4 months, 1968 — \$42,335), for the six months ended February 28, 1969. Expenditures on new equipment being installed in the current fiscal year will enable these companies to continue to pursue a vigorous marketing policy in the future. The order position through 1970 is strong.

The following figures reflect exclusively the operations of the Matthew Brady Holdings Limited group for the reporting period.



G. R. HEFFERNAN
President

April 4th, 1969

Consolidated Statement of Earnings

for the six months ended February 28, 1969
 (with comparative figures for the six months
 ended February 29, 1968 — Note 1)

	1969	1968
	\$	\$
Sales	1,280,289	400,733
Cost of sales, selling and administrative expenses	1,175,580	378,274
	<u>104,709</u>	<u>22,459</u>
Other income	4,393	—
	<u>109,102</u>	<u>22,459</u>
Income taxes	—	(166)
Net profit for the period	<u>109,102</u>	<u>22,625</u>

Consolidated Statement of Source and Use of Funds

for the six months ended February 28, 1969

SOURCE OF FUNDS	\$
Net profit for the period	109,102
Add: Charge not requiring cash outlay —	
— depreciation	<u>32,186</u>
	<u>141,288</u>
Issue of capital stock	1,750
Funds allocated to Iron Powder Project	2,936,329
Contributed surplus	<u>26,623</u>
	<u>3,105,990</u>

USE OF FUNDS

Exploration, development, research and administrative expenses	419,158
Purchase of fixed assets	65,647
Construction in progress	<u>2,544,999</u>
	<u>3,029,804</u>
INCREASE IN WORKING CAPITAL	76,186

Working Capital — Beginning of Period	149,478
Increase in working capital	76,186
Working Capital — End of Period	<u>225,664</u>

Note to the financial statements:

- Comparative earnings reflect the operations of Matthew Brady Holdings Limited for the four months to February 29, 1968 from the date of acquisition by Peace River Mining & Smelting Ltd., on November 1, 1967. Comparative figures are omitted from the Consolidated Statement of Source and Use of Funds due to lack of comparability with foregoing periods.

Whitby
G.R. Heffernan - 668-3838 th

Heffernan
564 6136

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PEACE RIVER

MINING & SMELTING LTD.

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